

EMMET COUNTY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

EMMET COUNTY

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2 - 3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Governmental Fund Financial Statements:	
Balance Sheet	6
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statements of Activities	9
Proprietary Fund Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Fund Net Assets	11
Statement of Cash Flows	12
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Assets and Liabilities - Agency Funds	13
Notes to Financial Statements	14 - 26
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds	27 - 28
Budgetary Comparison Schedule - Budget to GAAP Reconciliation	29
Notes to Required Supplementary Information - Budgetary Reporting	30
	<u>Schedule</u>
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 31 - 32
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 33 - 34
Agency Funds:	
Combining Schedule of Fiduciary Assets and Liabilities	3 35 - 37
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4 38 - 40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5 41
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42 - 43
Schedule of Findings	44 - 47

EMMET COUNTY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jim Jenson	Board of Supervisors	January 2007
Ron Smith	Board of Supervisors	January 2007
Roger Anderson	Board of Supervisors	January 2009
Alan Madden	Board of Supervisors	January 2009
Randy Beaver	Board of Supervisors	January 2009
Beverly Juhl	County Auditor	January 2009
Vickie Jurrens	County Treasurer	January 2007
Sue Snyder	County Recorder	January 2007
Larry Lamack	County Sheriff	January 2009
Doug Hansen	County Attorney	January 2007
Barbara Alig	County Assessor	January 2008

WINTHER, STAVE & CO., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Officials of Emmet County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Emmet County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Emmet County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Emmet County at June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2006 on our consideration of Emmet County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 27 through 30 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The County has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Emmet County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wenther, Steve HC ZLP

November 20, 2006

EMMET COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental <u>Activities</u>
ASSETS	
Cash and pooled investments	\$2,795,626
Receivables:	
Property tax:	
Succeeding year	3,589,953
Accounts	12,177
Accrued interest	11,359
Notes and contracts	10,970
Drainage assessments	546
Due from other governments	190,084
Inventories	463,269
Prepaid insurance	62,069
Capital assets - net of accumulated depreciation	<u>5,711,010</u>
TOTAL ASSETS	<u>12,847,063</u>
LIABILITIES	
Accounts payable	153,037
Salaries and benefits payable	27,160
Due to other governments	185,756
Deferred revenue:	
Succeeding year property tax	3,589,953
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreements	14,546
General obligation notes	24,300
Compensated absences	207,222
Portion due or payable after one year:	
Capital lease purchase agreements	37,676
General obligation notes	<u>124,792</u>
TOTAL LIABILITIES	<u>4,364,442</u>
NET ASSETS	
Invested in capital assets - net of related debt	5,509,696
Restricted for:	
Supplemental levy purposes	335,319
Mental health purposes	104,719
Secondary roads purposes	1,288,261
Other purposes	404,953
Unrestricted	<u>839,673</u>
TOTAL NET ASSETS	<u>\$ 8,482,621</u>

EMMET COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
	<u>Expenses</u>	<u>Service</u>			
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Public safety and legal services	\$1,134,643				\$(1,134,643)
Physical health and social services	549,638				(549,638)
Mental health	1,609,846				(1,609,846)
County environment and education	378,576				(378,576)
Roads and transportation	1,998,428		\$1,533,161	\$977,483	512,216
Governmental services to residents	436,538				(436,538)
Administration	748,823	\$298,497			(450,326)
Interest on long-term debt	2,363				(2,363)
TOTAL	<u>\$6,858,855</u>	<u>\$298,497</u>	<u>\$1,533,161</u>	<u>\$977,483</u>	<u>(4,049,714)</u>
GENERAL REVENUES:					
Property and other county tax levied for:					
General purposes					3,193,950
Interest and penalty on property tax					23,407
State tax credits					219,868
Grants and contributions not restricted to specific purpose					1,188,395
Unrestricted investment earnings					179,968
Miscellaneous					308,849
TOTAL GENERAL REVENUES					<u>5,114,437</u>
Change in net assets					1,064,723
Net assets - beginning of year					<u>7,417,898</u>
NET ASSETS - END OF YEAR					<u>\$ 8,482,621</u>

EMMET COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS

	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Cash and pooled investments	\$ 957,693	\$ 309,140	\$ 281,008	\$ 844,493	\$393,875	\$2,786,209
Receivables:						
Property tax:						
Succeeding year	2,056,893	802,539	730,521			3,589,953
Accounts	5,774	456		5,944	3	12,177
Accrued interest	10,776				583	11,359
Notes and contracts					10,970	10,970
Drainage assessments					546	546
Due from other governments	51,394	11,530		121,438	5,722	190,084
Inventories				463,269		463,269
Prepaid insurance	<u>29,756</u>			<u>32,313</u>		<u>62,069</u>
 TOTAL ASSETS	 <u>\$3,112,286</u>	 <u>\$1,123,665</u>	 <u>\$1,011,529</u>	 <u>\$1,467,457</u>	 <u>\$411,699</u>	 <u>\$7,126,636</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:						
Accounts payable	\$ 44,052	\$ 29,155		\$ 73,084	\$ 6,746	\$ 153,037
Salaries and benefits payable	11,431	1,496	\$ 413	13,820		27,160
Due to other governments		185,756				185,756
Deferred revenue:						
Succeeding year property tax	2,056,893	802,539	730,521			3,589,953
Other					10,980	10,980
TOTAL LIABILITIES	<u>2,112,376</u>	<u>1,018,946</u>	<u>730,934</u>	<u>86,904</u>	<u>17,726</u>	<u>3,966,886</u>
FUND BALANCES:						
Reserved for:						
Supplemental levy purposes	335,319					335,319
Unreserved, reported in:						
General fund	664,591					664,591
Special revenue funds		104,719	280,595	1,380,553	393,973	2,159,840
TOTAL FUND BALANCES	<u>999,910</u>	<u>104,719</u>	<u>280,595</u>	<u>1,380,553</u>	<u>393,973</u>	<u>3,159,750</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$3,112,286</u>	 <u>\$1,123,665</u>	 <u>\$1,011,529</u>	 <u>\$1,467,457</u>	 <u>\$411,699</u>	 <u>\$7,126,636</u>

EMMET COUNTY
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total governmental fund balances	\$3,159,750
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$11,415,794 and the accumulated depreciation is \$5,704,784.	5,711,010
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	10,980
The Internal Service Fund is used by management to charge the costs of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	9,417
Long-term liabilities, including capital lease purchase agreements, notes payable, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(408,536)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$8,482,621</u>

EMMET COUNTY,
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
REVENUES:						
Property and other county tax	\$1,909,745	\$ 675,506	\$651,441			\$3,236,692
Interest and penalty on property tax	23,407					23,407
Intergovernmental	624,645	713,722	42,719	\$1,533,161	\$ 27,177	2,941,424
Licenses and permits	2,025			525		2,550
Charges for service	293,041				2,531	295,572
Use of money and property	176,059				5,562	181,621
Miscellaneous	69,760	8,221		93,430	136,738	308,149
TOTAL REVENUES	<u>3,098,682</u>	<u>1,397,449</u>	<u>694,160</u>	<u>1,627,116</u>	<u>172,008</u>	<u>6,989,415</u>
EXPENDITURES:						
Operating:						
Public safety and legal services	1,004,275		147,628			1,151,903
Physical health and social services	551,087					551,087
Mental health		1,626,628				1,626,628
County environment and education services	248,311		43,726		98,413	390,450
Roads and transportation				2,173,602		2,173,602
Governmental services to residents	423,689				14,094	437,783
Administration	688,457		69	56,718		745,244
Debt service					17,500	17,500
Capital projects				455,687		455,687
TOTAL EXPENDITURES	<u>2,915,819</u>	<u>1,626,628</u>	<u>191,423</u>	<u>2,686,007</u>	<u>130,007</u>	<u>7,549,884</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>182,863</u>	<u>(229,179)</u>	<u>502,737</u>	<u>(1,058,891)</u>	<u>42,001</u>	<u>(560,469)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in (out)	(12,072)		(547,734)	547,734	12,072	
Long-term debt proceeds				76,500		76,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,072)</u>		<u>(547,734)</u>	<u>624,234</u>	<u>12,072</u>	<u>76,500</u>
NET CHANGE IN FUND BALANCES	170,791	(229,179)	(44,997)	(434,657)	54,073	(483,969)
FUND BALANCES - BEGINNING OF YEAR	<u>829,119</u>	<u>333,898</u>	<u>325,592</u>	<u>1,815,210</u>	<u>339,900</u>	<u>3,643,719</u>
FUND BALANCES - END OF YEAR	<u>\$ 999,910</u>	<u>\$ 104,719</u>	<u>\$280,595</u>	<u>\$1,380,553</u>	<u>\$393,973</u>	<u>\$3,159,750</u>

EMMET COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ (483,969)
--	--------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$1,043,810	
Capital assets contributed by the Iowa Department of Transportation	977,483	
Loss on disposition of capital assets	(1,850)	
Depreciation expense	<u>(218,664)</u>	1,800,779

Because some revenues will not be collected for several months after the County's year-end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property tax	(42,742)
--------------------	----------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year debt issues exceeded repayments as follows:

Issued	(209,157)	
Repaid	<u>44,465</u>	(164,692)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(56,130)
----------------------------	----------

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.....

11,477

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$1,064,723</u>
---	--------------------

EMMET COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

Internal Service

Health Insurance

ASSETS

Cash and pooled investments \$ 9,417

NET ASSETS \$ 9,417

EMMET COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>Internal Service</u>
	<u>Health Insurance</u>
OPERATING REVENUES:	
Reimbursements from operating funds	\$ 361,910
Reimbursements from employees	<u>180,628</u>
TOTAL OPERATING REVENUES	<u>542,538</u>
OPERATING EXPENSES:	
Insurance premiums and fees	<u>532,333</u>
TOTAL OPERATING EXPENSES	<u>532,333</u>
OPERATING INCOME	10,205
NONOPERATING REVENUES:	
Interest income	<u>1,272</u>
CHANGE IN NET ASSETS	11,477
NET ASSETS - BEGINNING OF YEAR	<u>(2,060)</u>
NET ASSETS - END OF YEAR	<u>\$ 9,417</u>

EMMET COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>Internal Service</u>
	<u>Health Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from operating fund reimbursements	\$ 361,910
Cash received from employees and others	180,628
Cash payments for premiums, fees, and other	<u>(532,333)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest	<u>1,272</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,272</u>
NET CHANGE IN CASH	11,477
CASH AT BEGINNING OF YEAR	<u>(2,060)</u>
CASH AT END OF YEAR	<u>\$ 9,417</u>
RECONCILIATIONS OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 10,205
Adjustments to reconcile operating income to net cash provided by operating activities:	
None	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,205</u>

EMMET COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2006

ASSETS

Cash and pooled investments:	
County Treasurer	\$ 453,142
Other County officials	17,969
Property tax receivable:	
Succeeding year	<u>8,691,220</u>
TOTAL ASSETS	<u>9,162,331</u>

LIABILITIES

Due to other governments	9,149,996
Trusts payable	<u>12,335</u>
TOTAL LIABILITIES	<u>9,162,331</u>

NET ASSETS	<u>\$</u>
------------	-----------

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Emmet County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Emmet County has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Emmet County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units - The following component units are entities which are legally separate from the County but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

One hundred sixty-five drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Emmet County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Emmet County Auditor's office.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Jointly Governed Organizations - The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Emmet County Assessor's Conference Board, Emmet County Emergency Management Commission, Emmet County Joint E911 Service Board, and Emmet County Empowerment Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Continued

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long-term debt.

Proprietary Fund - An internal service fund is utilized to account for the financing of services purchased by one department of the County and provided to other departments or agencies on a cost-reimbursement basis.

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund are reimbursements from operating funds and employees. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash and Pooled Investments - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investment in the Iowa Public Agency Investment Trust is valued at amortized cost. Non-negotiable certificates of deposits are stated at cost.

For purposes of the statement of cash flows, the County has no short-term investments to be considered for classification as cash equivalents.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments, is based on January 1, 2004 assessed property valuations, is for the tax accrual period July 1, 2005 through June 30, 2006, and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

Due from and Due to Other Funds - During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Notes and Contracts Receivable - Long-term receivables of governmental funds are reported on their respective balance sheets. To the extent these receivables are considered "available spendable resources," they are recognized in the current period. Recognition of governmental fund revenue represented by noncurrent receivables is deferred until they become current receivables.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Capital Assets - Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The County, as allowed by GAAP, has elected not to record infrastructure assets placed in service prior to the fiscal year ended June 30, 2004. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Infrastructure	\$ 65,000
Land, buildings, and improvements	25,000
Equipment and vehicles	5,000

Property and equipment of the County is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Buildings and improvements	25 - 50
Infrastructure	10 - 60
Equipment	3 - 20
Vehicles	5 - 15

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable and other receivables not collected within sixty days after year-end.

Deferred revenue in the statement of net assets includes succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Compensated Absences - County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

County employees accumulate a limited amount of earned but unused sick leave. The employee does not receive any pay for unused sick leave upon termination of employment with the County. Since the amount of sick leave to be used is undeterminable, no liability has been accrued.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. In the government fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the capital projects function.

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$500,193 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND POOLED INVESTMENTS - Continued

Interest Rate Risk - The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

Concentration of Credit Risk - The County places a five percent limit on the amount that may be invested in any one issuer of prime bankers acceptances, commercial paper, or other short-term corporate debt.

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$547,734
Special Revenue: Conservation Land Acquisition Trust	General Fund	\$ 12,072

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 156,869			\$ 156,869
Construction in progress	<u>1,732,000</u>	<u>\$ 543,000</u>	<u>\$(1,732,000)</u>	<u>543,000</u>
Total capital assets not being depreciated	<u>1,888,869</u>	<u>543,000</u>	<u>(1,732,000)</u>	<u>699,869</u>
Capital assets being depreciated:				
Buildings	2,339,018	118,142		2,457,160
Machinery and equipment	4,812,791	580,515	(201,865)	5,191,441
Infrastructure, road network		2,421,044		2,421,044
Other	<u>555,688</u>	<u>90,592</u>		<u>646,280</u>
Total capital assets being depreciated	<u>7,707,497</u>	<u>3,210,293</u>	<u>(201,865)</u>	<u>10,715,925</u>
Less accumulated depreciation for:				
Buildings	1,134,660	32,349		1,167,009
Machinery and equipment	3,995,787	184,050	(200,015)	3,979,822
Other	<u>555,688</u>	<u>2,265</u>		<u>557,953</u>
Total accumulated depreciation	<u>5,686,135</u>	<u>218,664</u>	<u>(200,015)</u>	<u>5,704,784</u>
Total capital assets being depreciated - net	<u>2,021,362</u>	<u>2,991,629</u>	<u>(1,850)</u>	<u>5,011,141</u>
Governmental activities capital assets - net	<u>\$3,910,231</u>	<u>\$3,534,629</u>	<u>\$(1,733,850)</u>	<u>\$ 5,711,010</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety and legal services	\$ 40,393
Mental health	2,154
County environment and education	11,794
Roads and transportation	128,756
Administration	<u>35,567</u>
Total depreciation expense - governmental activities	<u>\$ 218,664</u>

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

5. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agency for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Special Revenue:		
Mental Health	Services	\$ <u>185,756</u>
TOTAL FOR GOVERNMENTAL FUNDS		\$ <u>185,756</u>
Trust and agency:		
Agricultural Extension Education	Collections	\$ 107,049
County assessor	Collections	296,736
Schools	Collections	5,325,622
Community Colleges	Collections	298,712
Corporations	Collections	2,576,351
Townships and Fire Districts	Collections	138,635
Auto license and use tax	Collections	166,709
E-911 surcharge	Collections	195,556
Empowerment funds	Collections	25,720
All others	Collections	<u>18,906</u>
TOTAL FOR TRUST AND AGENCY FUNDS		\$ <u>9,149,996</u>

6. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	<u>Note, Loan and Contract Payable</u>	<u>Capital Lease Purchase Agreements</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance - beginning of year	\$ 16,875	\$ 19,747	\$151,092	\$187,714
Increases	167,092	42,065	56,130	265,287
Decreases	<u>34,875</u>	<u>9,590</u>	<u> </u>	<u>44,465</u>
Balance - end of year	<u>\$149,092</u>	<u>\$ 52,222</u>	<u>\$207,222</u>	<u>\$408,536</u>
Due within one year	<u>\$ 24,300</u>	<u>\$ 18,068</u>	<u>\$207,222</u>	<u>\$249,590</u>

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

6. CHANGES IN LONG-TERM LIABILITIES - Continued

Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease four copy machines and a phone system with a total historical cost of \$71,096.

The following is a schedule of future minimum lease payments, including interest ranging from 1.5% to 16.496% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2006.

<u>June 30,</u>	<u>Amount</u>
2007	\$ 18,068
2008	14,488
2009	10,429
2010	10,429
2011	8,690
Total minimum lease payments	62,104
Less amount representing interest	<u>9,882</u>
Present value of net minimum lease payments	<u>\$ 52,222</u>

Payments under capital lease purchase agreements for the year ended June 30, 2006 totaled \$11,328.

Note, Loan and Contract Payable

The County had a line of credit from a local bank in the amount of \$116,698, which expired on April 5, 2006. Notes written under this line were for the purchase of computer software and equipment. No outstanding balance remained as of June 30, 2006.

The County has a non-interest bearing loan with the State of Iowa in the amount of \$76,500 for culvert repair due to flood damage. Annual principal payments of \$15,300 begin in fiscal year 2007.

The County also has a non-interest bearing contract for \$90,592 for the purchase of gravel and mineral rights. Required annual payments are \$9,000 per year through 2013, with a final payment of \$9,592 in 2014. The outstanding contract balance at June 30, 2006 was \$72,592.

Maturities required as of June 30, 2006 are as follows:

2007	\$ 24,300
2008	24,300
2009	24,300
2010	24,300
2011	24,300
2012 - 2016	<u>27,592</u>
Total	<u>\$149,092</u>

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

7. PENSION AND RETIREMENT BENEFITS

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$166,066, \$157,644, and \$158,694, respectively, equal to the required contributions for each year.

8. OPERATING LEASES

The County has entered into noncancelable agreements to lease office space. The leases require monthly lease payments of \$1,591 and \$500 and expire in September 2007 and June 2010, respectively.

The following is a schedule of the future minimum lease payments under these agreements at June 30, 2006:

<u>June 30,</u>	<u>Amount</u>
2007	\$ 25,092
2008	10,773
2009	6,000
2010	<u>6,000</u>
TOTAL	<u>\$ 47,865</u>

Total rent expense for the year ended June 30, 2006 was \$25,092.

9. RISK MANAGEMENT

Emmet County is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

EMMET COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

10. CONSTRUCTION COMMITMENTS

The County has entered into contracts totaling approximately \$3,470,000 for roadway paving and bridge construction. As of June 30, 2006, costs of approximately \$2,964,000 have been incurred. The balance remaining on the contracts of approximately \$506,000 will be paid as work on the projects progress, primarily from the Iowa Department of Transportation Farm to Market Road Fund.

REQUIRED SUPPLEMENTARY INFORMATION

EMMET COUNTY
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	<u>Actual</u>	Less Funds not Required to be <u>Budgeted</u>
RECEIPTS:		
Property and other county tax	\$3,235,483	
Interest and penalty on property tax	23,658	
Intergovernmental	2,957,696	
Licenses and permits	2,530	
Charges for service	290,147	
Use of money and property	169,337	
Miscellaneous	<u>252,988</u>	<u>\$ 39,200</u>
TOTAL RECEIPTS	<u>6,931,839</u>	<u>39,200</u>
DISBURSEMENTS:		
Public safety and legal services	1,158,182	
Physical health and social services	553,231	
Mental health	1,587,244	
County environment and education services	328,906	55,628
Roads and transportation	2,241,810	
Governmental services to residents	438,893	
Administration	740,338	
Debt service	17,500	
Capital projects	<u>438,419</u>	
TOTAL DISBURSEMENTS	<u>7,504,523</u>	<u>55,628</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(572,684)	(16,428)
OTHER FINANCING SOURCES - NET	<u>76,500</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	(496,184)	(16,428)
BALANCE - BEGINNING OF YEAR	<u>3,282,393</u>	<u>83,825</u>
BALANCE - END OF YEAR	<u>\$2,786,209</u>	<u>\$ 67,397</u>

<u>Net</u>	<u>Budgeted Amounts</u>		Final to Actual Variance - Positive (Negative)
	<u>Original</u>	<u>Final</u>	
\$3,235,483	\$3,224,721	\$ 3,224,721	\$ 10,762
23,658	15,300	15,300	8,358
2,957,696	2,840,558	2,870,296	87,400
2,530	5,700	5,700	(3,170)
290,147	284,960	311,658	(21,511)
169,337	66,835	66,835	102,502
213,788	98,524	98,524	115,264
<u>6,892,639</u>	<u>6,536,598</u>	<u>6,593,034</u>	<u>299,605</u>
1,158,182	1,171,522	1,209,660	51,478
553,231	576,196	601,084	47,853
1,587,244	1,643,213	1,643,213	55,969
273,278	353,516	367,275	93,997
2,241,810	2,573,801	2,708,301	466,491
438,893	429,831	441,631	2,738
740,338	875,620	886,820	146,482
17,500	18,095	18,095	595
438,419	299,492	299,492	(138,927)
<u>7,448,895</u>	<u>7,941,286</u>	<u>8,175,571</u>	<u>726,676</u>
(556,256)	(1,404,688)	(1,582,537)	1,026,281
<u>76,500</u>	<u> </u>	<u>76,500</u>	<u> </u>
(479,756)	(1,404,688)	(1,506,037)	1,026,281
<u>3,198,568</u>	<u>2,405,054</u>	<u>2,405,054</u>	<u>793,514</u>
<u>\$2,718,812</u>	<u>\$1,000,366</u>	<u>\$ 899,017</u>	<u>\$1,819,795</u>

EMMET COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$6,931,839	\$ 57,576	\$6,989,415
Expenditures	<u>7,504,523</u>	<u>45,361</u>	<u>7,549,884</u>
Net	(572,684)	12,215	(560,469)
Other financing sources - net	76,500		76,500
Beginning fund balances	<u>3,282,393</u>	<u>361,326</u>	<u>3,643,719</u>
ENDING FUND BALANCE	<u>\$2,786,209</u>	<u>\$ 373,541</u>	<u>\$3,159,750</u>

EMMET COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$234,284. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the capital projects function.

OTHER SUPPLEMENTARY INFORMATION

EMMET COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS

	<u>Resource Enhancement and Protection</u>	<u>Recorder's Records Management</u>
Cash and pooled investments	\$ 24,402	\$ 13,222
Receivables:		
Accounts		
Accrued interest	95	65
Notes and contracts		
Drainage assessments		
Due from other governments	<u>5,038</u>	<u>684</u>
 TOTAL ASSETS	 <u>\$ 29,535</u>	 <u>\$ 13,971</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:		
Accounts payable	\$ 6,233	
Deferred revenue:		
Other		
TOTAL LIABILITIES	<u>6,233</u>	
 FUND BALANCES:		
Unreserved	<u>23,302</u>	<u>\$ 13,971</u>
TOTAL FUND BALANCES	<u>23,302</u>	<u>13,971</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 29,535</u>	 <u>\$ 13,971</u>

Special Revenue				
Conservation Land Acquisition <u>Trust</u>	Revolving <u>Loan</u>	Recorder's Electronic <u>Transfer</u>	Drainage <u>Districts</u>	<u>Total</u>
\$110,367	\$177,758	\$ 729	\$ 67,397	\$393,875
		3		3
423				583
	10,970			10,970
			546	546
				5,722
<u>\$110,790</u>	<u>\$188,728</u>	<u>\$ 732</u>	<u>\$ 67,943</u>	<u>\$411,699</u>
			\$ 513	\$ 6,746
	\$ 10,970		10	10,980
	10,970		523	17,726
<u>\$110,790</u>	<u>177,758</u>	<u>\$ 732</u>	<u>67,420</u>	<u>393,973</u>
<u>110,790</u>	<u>177,758</u>	<u>732</u>	<u>67,420</u>	<u>393,973</u>
<u>\$110,790</u>	<u>\$188,728</u>	<u>\$ 732</u>	<u>\$ 67,943</u>	<u>\$411,699</u>

EMMET COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Resource Enhancement and Protection	Recorder's Records Management	Conservation Land Acquisition Trust
REVENUES:			
Intergovernmental	\$ 9,677		
Charges for service		\$ 2,531	
Use of money and property	918	655	\$ 3,752
Miscellaneous			54,587
TOTAL REVENUES	<u>10,595</u>	<u>3,186</u>	<u>58,339</u>
EXPENDITURES:			
Operating:			
County environment and education services.....	6,233		
Governmental services to residents		3,385	
Debt service			
TOTAL EXPENDITURES	<u>6,233</u>	<u>3,385</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,362</u>	<u>(199)</u>	<u>58,339</u>
OTHER FINANCING SOURCES:			
Operating transfers in			12,072
TOTAL OTHER FINANCING SOURCES			<u>12,072</u>
NET CHANGE IN FUND BALANCES	4,362	(199)	70,411
FUND BALANCES - BEGINNING OF YEAR	<u>18,940</u>	<u>14,170</u>	<u>40,379</u>
FUND BALANCES - END OF YEAR	<u>\$ 23,302</u>	<u>\$ 13,971</u>	<u>\$110,790</u>

<u>Special Revenue</u>				
<u>Revolving Loan</u>	<u>Recorder's Electronic Transfer</u>	<u>Drainage Districts</u>	<u>Debt Service</u>	<u>Total</u>
			\$ 17,500	\$ 27,177
				2,531
	\$ 237			5,562
<u>\$ 42,404</u>		<u>\$ 39,747</u>		<u>136,738</u>
<u>42,404</u>	<u>237</u>	<u>39,747</u>	<u>17,500</u>	<u>172,008</u>
40,684	10,709	51,496		98,413
			17,500	14,094
<u>40,684</u>	<u>10,709</u>	<u>51,496</u>	<u>17,500</u>	<u>17,500</u>
			<u>17,500</u>	<u>130,007</u>
<u>1,720</u>	<u>(10,472)</u>	<u>(11,749)</u>		<u>42,001</u>
				12,072
				12,072
1,720	(10,472)	(11,749)		54,073
<u>176,038</u>	<u>11,204</u>	<u>79,169</u>		<u>339,900</u>
<u>\$177,758</u>	<u>\$ 732</u>	<u>\$ 67,420</u>	<u>\$</u>	<u>\$393,973</u>

EMMET COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2006

	<u>County Offices</u>	<u>Agricultural Extension Education</u>	<u>County Assessor</u>
ASSETS			
Cash and pooled investments:			
County Treasurer			\$ 53,321
Other County officials	\$ 17,969		
Property tax receivable:			
Succeeding year	<u> </u>	\$107,049	<u>243,415</u>
 TOTAL ASSETS	 <u>\$ 17,969</u>	 <u>\$107,049</u>	 <u>\$296,736</u>
 LIABILITIES			
Due to other governments	\$ 5,634	\$107,049	\$296,736
Trusts payable	<u>12,335</u>	<u> </u>	<u> </u>
 TOTAL LIABILITIES	 <u>\$ 17,969</u>	 <u>\$107,049</u>	 <u>\$296,736</u>

Agency Funds					
<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships and Fire Districts</u>	<u>Auto License and Use Tax</u>	<u>E-911 Surcharge</u>
				\$166,709	\$195,556
<u>\$5,325,622</u>	<u>\$298,712</u>	<u>\$2,576,351</u>	<u>\$138,635</u>	_____	_____
<u>\$5,325,622</u>	<u>\$298,712</u>	<u>\$2,576,351</u>	<u>\$138,635</u>	<u>\$166,709</u>	<u>\$195,556</u>
<u>\$5,325,622</u>	<u>\$298,712</u>	<u>\$2,576,351</u>	<u>\$138,635</u>	<u>\$166,709</u>	<u>\$195,556</u>
<u>\$5,325,622</u>	<u>\$298,712</u>	<u>\$2,576,351</u>	<u>\$138,635</u>	<u>\$166,709</u>	<u>\$195,556</u>

EMMET COUNTY
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES - Continued
 AGENCY FUNDS
 JUNE 30, 2006

Schedule 3

	<u>Agency Funds</u>		
	<u>Empowerment Fund</u>	<u>Other</u>	<u>Total</u>
ASSETS			
Cash and pooled investments:			
County Treasurer	\$ 25,720	\$ 11,836	\$ 453,142
Other County officials			17,969
Property tax receivable:			
Succeeding year	<u> </u>	<u>1,436</u>	<u>8,691,220</u>
 TOTAL ASSETS	 <u>\$ 25,720</u>	 <u>\$ 13,272</u>	 <u>\$9,162,331</u>
 LIABILITIES			
Due to other governments	\$ 25,720	\$ 13,272	\$9,149,996
Trusts payable	<u> </u>	<u> </u>	<u>12,335</u>
 TOTAL LIABILITIES	 <u>\$ 25,720</u>	 <u>\$ 13,272</u>	 <u>\$9,162,331</u>

EMMET COUNTY
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 YEAR ENDED JUNE 30, 2006

	<u>County Offices</u>	<u>Agricultural Extension Education</u>	<u>County Assessor</u>
BALANCE - BEGINNING OF YEAR	\$ <u>16,936</u>	<u>\$101,603</u>	<u>\$304,310</u>
ADDITIONS:			
Property and other County tax		102,848	233,194
911 surcharge			
State tax credits		6,827	16,608
Office fees and collections	263,645		8,429
Auto licenses, use tax, and postage			
Trusts	145,848		
Miscellaneous			
TOTAL ADDITIONS	<u>409,493</u>	<u>109,675</u>	<u>258,231</u>
DEDUCTIONS:			
Agency Remittances:			
To other funds	100,632		
To other governments	163,338	104,229	265,805
Trusts paid out	144,490		
Miscellaneous			
TOTAL DEDUCTIONS	<u>408,460</u>	<u>104,229</u>	<u>265,805</u>
 BALANCE - END OF YEAR	 <u>\$ 17,969</u>	 <u>\$107,049</u>	 <u>\$296,736</u>

Agency Funds					
<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships and Fire Districts</u>	<u>Auto License and Use Tax</u>	<u>E-911 Surcharge</u>
<u>\$5,029,641</u>	<u>\$264,157</u>	<u>\$2,560,674</u>	<u>\$132,421</u>	<u>\$ 187,652</u>	<u>\$153,808</u>
5,114,971	287,790	2,465,282	133,792		75,640
338,185	17,749	162,448	8,617		
				2,267,632	
<u>5,453,156</u>	<u>305,539</u>	<u>2,627,730</u>	<u>142,409</u>	<u>2,267,632</u>	<u>75,640</u>
5,157,175	270,984	2,612,053	136,195	91,499 2,197,076	33,892
<u>5,157,175</u>	<u>270,984</u>	<u>2,612,053</u>	<u>136,195</u>	<u>2,288,575</u>	<u>33,892</u>
<u>\$5,325,622</u>	<u>\$298,712</u>	<u>\$2,576,351</u>	<u>\$138,635</u>	<u>\$ 166,709</u>	<u>\$195,556</u>

EMMET COUNTY Schedule 4
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 Continued
 AGENCY FUNDS
 YEAR ENDED JUNE 30, 2006

	<u>Agency Funds</u>		
	<u>Empowerment Fund</u>	<u>Other</u>	<u>Total</u>
BALANCE - BEGINNING OF YEAR	<u>\$ 25,258</u>	<u>\$ 30,329</u>	<u>\$ 8,806,789</u>
ADDITIONS:			
Property and other County tax		67,591	8,405,468
911 surcharge			75,640
State tax credits		9,527	559,961
Office fees and collections		2,533	274,607
Auto licenses, use tax, and postage			2,267,632
Trusts			145,848
Miscellaneous	<u>141,683</u>	<u>190,139</u>	<u>331,822</u>
TOTAL ADDITIONS	<u>141,683</u>	<u>269,790</u>	<u>12,060,978</u>
DEDUCTIONS:			
Agency Remittances:			
To other funds			192,131
To other governments		286,847	11,227,594
Trusts paid out			144,490
Miscellaneous	<u>141,221</u>		<u>141,221</u>
TOTAL DEDUCTIONS	<u>141,221</u>	<u>286,847</u>	<u>11,705,436</u>
BALANCE - END OF YEAR	<u>\$ 25,720</u>	<u>\$ 13,272</u>	<u>\$ 9,162,331</u>

EMMET COUNTY
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES:				
Property and other County tax	\$3,236,692	\$3,021,031	\$3,388,885	\$3,100,488
Interest and penalty on property tax ...	23,407	35,119	26,088	22,569
Intergovernmental	2,941,424	2,834,531	2,828,622	2,851,652
Licenses and permits	2,550	1,324	4,275	2,140
Charges for service	295,572	277,507	297,913	267,246
Use of money and property	181,621	75,657	54,623	135,383
Miscellaneous	<u>308,149</u>	<u>331,994</u>	<u>195,987</u>	<u>160,080</u>
TOTAL	<u>\$6,989,415</u>	<u>\$6,577,163</u>	<u>\$6,796,393</u>	<u>\$6,539,558</u>
EXPENDITURES:				
Operating:				
Public safety and legal services	\$1,151,903	\$1,101,629	\$1,100,948	\$1,049,707
Physical health and social services .	551,087	528,634	560,765	535,644
Mental health	1,626,628	1,421,809	1,369,753	1,396,576
County environment and education				
services	390,450	295,005	328,496	344,091
Roads and transportation	2,173,602	1,976,853	1,791,530	2,228,787
Governmental services to residents	437,783	307,658	271,780	216,468
Administration	745,244	743,178	727,274	835,205
Debt service	17,500	27,367	27,367	105,350
Capital projects	<u>455,687</u>	<u>226,264</u>	<u>156,606</u>	<u>344,522</u>
TOTAL	<u>\$7,549,884</u>	<u>\$6,628,397</u>	<u>\$6,334,519</u>	<u>\$7,056,350</u>

WINTHER, STAVE & CO., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Officials of Emmet County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Emmet County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated November 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emmet County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Emmet County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emmet County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Emmet County and other parties to whom Emmet County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Emmet County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Winther, Steve FC LHP". The signature is written in a cursive, flowing style.

November 20, 2006

EMMET COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- I-A-06 Segregation of Duties - One significant aspect of internal accounting control is the adequate segregation of duties among employees in order to minimize an individual employee or official from handling duties which are incompatible. The segregation of duties helps to prevent losses from unintentional employee errors or dishonesty and improves the reliability and accuracy of the County's financial statements. We noted that in each of the offices of the basic County officials there were several accounting functions that were being performed by the same person.

Recommendation - We recognize that with a limited number of office employees segregation of duties is difficult. However, accounting controls may be improved by having certain procedures performed by only one person for a given period of time and then rotating the responsibilities for a control function sometime during the year. In some instances, the County official should consider delegating certain responsibilities to deputies and provide the main supervision and review function themselves. In all instances where it is not possible to segregate duties, it is important to increase the review of that work by supervisory personnel.

Response - We will continue to segregate duties the best we can with the limited number of personnel we have.

Conclusion - Response accepted.

- I-B-06 Sheriff's Office Accounts - During our audit, we noted the Sheriff's office maintains separate financial institution accounts for drug investigations, DARE, canine, and posse. These accounts are maintained and controlled by the Sheriff but have minimal activity. In addition, the activity in these accounts is not reported to or approved by the Board of Supervisors.

Recommendation - We recommend these four accounts be closed and remitted to the County Treasurer to maintain on behalf of the Sheriff's Office.

Response - We will discuss closing these accounts and remitting the funds to the County Treasurer with the County Sheriff. If not done, we will ask that activity in these accounts be reported to the Board of Supervisors for approval.

Conclusion - Response accepted.

EMMET COUNTY
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements

Reportable Conditions - Continued

- I-C-06 Assessor's Special Appraiser's Fund - Chapter 441.50 of the Code of Iowa authorizes the use of a "Special Appraiser's Fund" by the Emmet County Assessor's Conference Board to pay certain property valuation expenses from a separate tax levy. Currently the County does not maintain a separate fund to account for the tax levy receipts and the related expenditures. Rather, the levy and receipts are included with other Assessor office receipts and disbursements. No record is maintained of the amount of the special levy which has not been spent during the fiscal year and is required to be spent in a future fiscal year solely for the expenses allowed by Chapter 441.50.

Recommendation - A separate fund should be established to account for the special levy and the expenses it is used to pay.

Response - We will establish a separate fund to account for the Special Appraiser's Fund Levy.

Conclusion - Response accepted.

EMMET COUNTY
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting

- II-A-06 Certified Budget - Disbursements for the year ended June 30, 2006 exceeded the amounts budgeted in the capital projects function.

Recommendation - The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when required.

Conclusion - Response accepted.

- II-B-06 Questionable Expenditures - No expenditures that we believe may not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- II-C-06 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Elaine Kaltved, spouse of employee Dave Kaltved, independent contractor	Cleaning	\$ 559
Mike Martens, Deputy Sheriff, Owner of M & M Accessories	Services	850
Hoffman Tire, owned by a County employee	Parts	367
Terry Reekers, EMA Coordinator, independent contractor	Mowing	719
Randy Beaver, Supervisor	Materials	90
Dale Juhl, spouse of County Auditor Beverly Juhl, independent contractor	Election worker	7

In accordance with Chapter 331.342 of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

EMMET COUNTY
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting - Continued

- II-E-06 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Deposits and Investments - No instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- II-H-06 Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-06 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in the government-wide financial statements.

Disbursements during the year ended June 30, 2006 for the County extension office did not exceed the amount budgeted.